

## Message Text

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PAGE 01 KUALA 02740 01 OF 02 051006Z  
ACTION EA-12

INFO OCT-01 EUR-12 ISO-00 CIAE-00 DODE-00 PM-05 H-01  
INR-10 L-03 NSAE-00 NSC-05 PA-01 SP-02 SS-15  
ICA-11 AID-05 TRSE-00 OMB-01 EB-08 COME-00 STR-07  
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R 050704Z APR 78  
FM AMEMBASSY KUALA LUMPUR  
TO SECSTATE WASHDC 3249  
INFO USDOC WASHDC  
AMEMBASSY BANGKOK  
AMEMBASSY JAKARTA  
AMEMBASSY MANILA  
AMEMBASSY SINGAPORE  
AMEMBASSY PARIS  
AMEMBASSY TOKYO  
AMCONSUL HONG KONG

LIMITED OFFICIAL USE SECTION 1 OF 2 KUALA LUMPUR 2740/1

E. O. 11652: N/A  
TAGS: BEXP, ETRD, MY  
SUBJ: US COMPETITIVE POSITION IN MALAYSIA

REF: STATE 70331

1. THERE IS INCREASING EVIDENCE THAT THE ONGOING DEVALUATION OF THE DOLLAR, WHILE SUBSTANTIALLY STRENGTHENING THE U.S. COMPETITIVE POSITION IN MALAYSIA, IS NOT IN ITSELF ENOUGH TO OVERCOME FOREIGN GOVERNMENT EXPORT FINANCING ON MAJOR PROJECTS, ESPECIALLY THAT OFFERED BY JAPAN. HOWEVER, CONVERSATIONS WITH BANKERS, TRADING HOUSES AND AMERICAN EXPORTERS HAVE LED US TO BELIEVE THAT THE U. S. COMPETITIVE POSITION IN THE PRIVATE MARKET IS SUBSTANTIALLY IMPROVING VIS-A-VIS THAT OF THE MAJOR INDUSTRIALIZED COUNTRIES, ESPECIALLY GERMANY AND JAPAN.

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PAGE 02 KUALA 02740 01 OF 02 051006Z

2. WE HAVE RECENTLY SEEN THREE DIFFERENT CASES WHICH ILLUSTRATE THESE DIFFERENT TRENDS. THE FIRST OF THESE CONCERNS CHRYSLER CORPORATION WHICH IS PLANNING TO ASSEMBLE A FOUR-WHEELED DRIVE VEHICLE WHICH WOULD BE SOURCED FROM THE UNITED STATES RATHER THAN FROM THE UNITED KINGDOM OR FRANCE AS HAS BEEN THE CASE IN THE PAST. IF THIS PROJECT IS APPROVED, IT WOULD

MEAN A SUBSTANTIAL PLUS IN US SALES TO MALAYSIA. THE REASON IS THAT CHRYSLER PLANS USING ITS ASSEMBLY FACILITIES HERE TO SERVICE THE GOVERNMENT MARKET, ESPECIALLY POLICE AND MILITARY, IN NOT ONLY MALAYSIA (WHERE A VERY LARGE MARKET EXISTS) BUT ALSO IN INDONESIA AND IN BURMA. IN A SECOND CASE, THE LOCOMOTIVE DIVISION OF GENERAL MOTORS RECENTLY WAS ABLE TO WIN A LARGE TENDER AGAINST VERY STIFF COMPETITION FROM BOTH JAPANESE AND FRENCH EXPORTERS. THE AMERICAN COMPANY WAS SELECTED BECAUSE OF TECHNICAL COMPETENCE, PRICE, AND FINANCING. THIS TENDER HAS NOW BEEN CANCELLED FOR REASONS DISCUSSED BELOW. FINALLY, THE UNITED TECHNOLOGY (UT) CORPORATION RECENTLY BID ON FOUR 25 MEGAWATT TURBINE GENERATORS. DURING THE NEGOTIATIONS FOR THE SALE OF THESE GENERATORS, UT'S PRICE, OFFERED IN

U.S. DOLLARS, WAS CONSISTENTLY IMPROVED BY THE DECLINING VALUE OF THE DOLLAR AGAINST THAT OF THE MAJOR COMPETITORS. THE COMPANY UNFORTUNATELY WAS UNABLE TO OVERCOME THE PRICE OF TWO OTHER MANUFACTURERS FROM DIFFERENT NATIONS (SEE BELOW) BUT THERE WAS LITTLE DOUBT THAT THE DOLLAR'S DEVALUATION CONSIDERABLY IMPROVED UT'S COMPETITIVENESS AND ENABLED IT TO BE IN THE RUNNING DOWN TO THE FINAL SELECTION. IT IS DOUBTFUL THAT THIS WOULD HAVE BEEN TRUE AS LITTLE AS 12 MONTHS PREVIOUSLY.

3. AT THIS MOMENT, AND FOR ENTIRELY DIFFERENT REASONS, THE MAIN COMPETITION AMERICAN EXPORTERS FACE IN SALES TO THE GOM SEEMS TO BE FROM FRANCE AND JAPAN. THE FRENCH, OF ALL LIMITED OFFICIAL USE

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PAGE 03 KUALA 02740 01 OF 02 051006Z

THE EUROPEANS, CONTINUE TO BE ABLE TO U.S. COMPETITION ON THE BASIS OF PRICE, AVAILABILITY AND TECHNICAL COMPETENCE. THE FRENCH HAVE ALSO BEEN EXCEPTIONALLY AGGRESSIVE IN TERMS OF USING FRENCH GOVERNMENT EXPORT CREDIT IN AN ATTEMPT TO WIN TENDERS. IT IS IN THIS AREA THAT THE EXIMBANK HAS BEEN ESPECIALLY HELPFUL. WE EXPECT THE FRENCH TO REMAIN ACTIVE AND EFFECTIVE COMPETITORS WITH US OVER THE NEXT SEVERAL MONTHS.

4. THE MOST DIFFICULT COMPETITION, HOWEVER, CONTINUES TO COME FROM JAPAN. THIS COMPETITION IS TROUBLING BECAUSE OF THE USE BY THE JAPANESE EXPORTERS OF THE GOJ YEN CREDIT TO MALAYSIA AS A TOOL OF JAPANESE EXPORT EXPANSION. THERE IS NOW LITTLE DOUBT THAT BOTH THE JAPANESE GOVERNMENT AND BUSINESS USE YEN CREDITS AS AN EFFECTIVE SALES DEVICE IN DEALING WITH THE GOM. EXAMPLES OF THESE RELATED THE PROJECTS MENTIONED ABOVE. WITH RESPECT TO THE LOCOMOTIVE TENDER, MALAYAN RAILWAYS HAD ORIGINALLY REJECTED THE JAPANESE SUBMISSION AS BEING TECHNICALLY NOT SUITABLE. THE FRENCH AND AMERICAN COMPANIES INVOLVED WERE JUDGED TO BE TECHNICALLY QUALIFIED AND ENTERED INTO A STRAIGHT COMPETITION. THE AMERICAN COMPANY WAS FINALLY ABLE TO OUTBID THE FRENCH COMPETITION ON THE BASIS OF PRICE, FINANCING (THANKS TO EXIM) AND ITS RECORD OF RELIABILITY.

HOWEVER, WE HAVE LEARNED THAT THE JAPANESE EMBASSY APPROACHED THE MINISTRY OF FINANCE AND COMPLAINED THAT THE JAPANESE COMPANY HAD NOT BEEN FAIRLY TREATED, ESPECIALLY SINCE THE JAPANESE GOVERNMENT WAS PREPARED TO USE YEN CREDITS IN THIS PARTICULAR PROJECT. THE MINISTRY OF FINANCE PREVAILED UPON MALAYAN RAILWAYS TO CANCEL THE EXISTING TENDER AWARD AND TO REOPEN THE ENTIRE TENDER. THUS AN AMERICAN COMPANY HAS LOST A SALE THAT HAD BEEN NAILED DOWN. UNFORTUNATELY, IT NOW APPEARS THAT G.M. AS A MATTER OF INTERNAL CORPORATE STRATEGY, WILL SHIFT BIDDING FOR THIS ORDER FROM ITS U.S. SUBSIDIARY TO THE CANADIAN ONE. WHILE THIS WILL NO DOUBT MEAN PROFITS OVER THE LONG TERM FOR AMERICAN FIRM, THE AMERICAN MANUFACTURING FACILITY AND ITW WORKERS WILL RECEIVE LITTLE, IF ANY, DIRECT BENEFIT FROM THE SALE. THE SECOND CASE, WHICH IS LIMITED OFFICIAL USE

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PAGE 04 KUALA 02740 01 OF 02 051006Z

EVEN MORE TROUBLING IN ITS IMPLICATIONS, DID NOT DIRECTLY INJURE AN AMERICAN FIRM. IT IS, HOWEVER, INCLUDED TO AT LEAST INDICATE HOW THE WEIGHT OF YEN FINANCING IS USED TO OBTAIN PROJECTS ON WHICH JAPANESE COMPANIES ARE BIDDING THE PROJECT IN QUESTION IS THE ONE CONCERNING THE TURBINE GENERATORS THAT UNITED TECHNOLOGY BID ON (SEE ABOVE). WHILE UNITED TECHNOLOGY'S PRICE PUT THEM IN THEIR PLACE, AND THUS ELIMINATED THE COMPANY FROM WINNING THE BID, THE FRENCH COMPANY INVOLVED HAD A PRICE SUBSTANTIALLY LOWER THAN THAT OF THE JAPANESES WHILE AT THE SAME TIME MEETING ALL TECHNICAL SPECIFICATIONS.

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PAGE 01 KUALA 02740 02 OF 02 050952Z  
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LIMITED OFFICIAL USE SECTION 2 OF 2 KUALA LUMPUR 2740

HOWEVER, DESPITE THE LOWER PRICE AND THE OFFER OF FRENCH GOVERNMENT EXIM TYPE FINANCING, THE JAPANESE COMPANY WITH THE HIGHER PRICE WON THE CONTRACT ON THE BASIS SOLELY OF YEN FINANCING (FOUR PERCENT, TWENTY YEAR TERMS). WHILE THERE IS NOTHING PARTICULARLY SURPRISING IN ALL OF THIS, WE ARE CONCERNED OVER INDICATIONS THAT THE JAPANESE HAVE BEEN CLAIMING THAT THE YEN CREDIT WOULD ONLY ENTER THE PICTURE AFTER ALL OTHER COMPETITIVE FACTORS HAD BEEN WEIGHTED. THIS IS CLEARLY NOT THE CASE IN SO FAR AS MALAYSIA IS CONCERNED.

5. IN SUMMARY, THE SITUATION WE ARE FACING IN MALAYSIA IS QUITE SIMPLE. THE COMPETITIVE POSITION OF U.S. FIRMS HAS IMPROVED SHARPLY AS A RESULT OF THE DEVALUATION OF THE DOLLAR. THIS FACTOR, AKEIN IN CONJUNCTION WITH INCREASED AGGRESSIVENESS ON THE PART OF THE EXIMBANK, HAS NO DOUBT LIMITED OFFICIAL USE

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PAGE 02 KUALA 02740 02 OF 02 050952Z

PUT U.S. EXPORTERS IN THE BEST POSITION TO COMPETE IN THE MALAYSIAN MARKET THEY HAVE ENCOUNTERED IN RECENT YEARS. HOWEVER, IT IS ALSO INCREASINGLY EVIDENT THAT AMERICAN COMPANIES ARE GOING TO FIND IT VIRTUALLY IMPOSSIBLE TO COMPETE WITH JAPANESE FIRMS WHERE YEN CREDITS ARE INVOLVED. ALTHOUGH THERE SEEMS TO BE NO ECONOMIC JUSTIFICATION FOR THE USE OF YEN CREDITS TO EITHER (A) PROVIDE BILATERAL DEVELOPMENT ASSISTANCE TO MALAYSIA, A COUNTRY THAT ECONOMICALLY FINDS ITSELF IN A LEADING POSITION AMONG THOSE IN THE DEVELOPING WORLD OR (B) IN ORDER TO ASSIST JAPANESE EXPORTS GIVEN THE JAPANESE DOMINANCE OF THIS MARKET (THEY ALREADY HAVE ABOUT 23 PERCENT OF MALAYSIA'S IMPORTS) AND BECAUSE OF THE STRONG BALANCE OF PAYMENT POSITION JAPAN HAS, IT APPEARS TO US THAT THE JAPANESE ARE USING THE YEN CREDIT AS A DIRECT FORM OF EXPORT SUBSIDIES FOR JAPANESE MANUFACTURERS. THERE IS NO DOUBT THAT THIS IS DAMAGING AMERICAN COMMERCIAL INTERESTS IN MALAYSIA.

6. ON THE POSITIVE SIDE, WE HAVE BEEN INCREASINGLY IMPRESSED AND VERY APPRECIATIVE OF THE SUPERB SUPPORT THE EXIMBANK, UNDER ITS NEW LEADERSHIP, IS PROVIDING FOR AMERICAN EXPORTERS. IN TWO RECENT MAJOR PROJECTS

WHERE WE HAVE BEEN ABLE TO DEMONSTRATE SUBSTANTIAL  
COMPETITION BASED ON FOREIGN GOVERNMENT EXPORT FINANCING,  
THE EXIMBANK HAS BEEN WILLING TO TRY TO MATCH, AND IN  
SOME CASES TO BETTER, THE OFFER MADE BY THE FOREIGN GOVERNMENT.  
THIS HAS BEEN PARTICULARLY CRUCIAL IN COMPETITION AGAINST THE  
FRENCH. WE WERE HEARTENED BY OTHER ACTIONS OF EXIMBANK  
AND THE ASSURANCES RECENTLY SENT OUR IN THE REFERENCED  
TELEGRAM CONCERNING THE INTENTIONS OF THE BANK TO CONTINUE  
TO PLAY AN ACTIVE ROLE. WE BELIEVE THAT AS AMERICAN  
EXPORTS BECOME MORE COMPETITIVE, FOREIGN COMPETITORS WILL  
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PAGE 03 KUALA 02740 02 OF 02 050952Z

INCREASINGLY SEEK TO OBTAIN CONTRACTS ON THE BASIS OF GOVERNMENT  
EXPORT FINANCING RATHER THAN PRICE. CONTINUED  
STRONG EXIM SUPPORT IS CRUCIAL FOR SUCCESS IN THIS AREA.  
MILLER

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## Message Attributes

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